

# Evolution of Rural Development Strategies and Policies

## *Lessons from Vietnam*

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Document de travail ART-Dev 2016-5

October 2016  
Version 1



**UMR 5281 Art-Dev**

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**Titre :** Evolution of Rural Development Strategies and Policies. Lessons from Thailand  
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**Abstract**

This country case study has been financed by the OECD Development Centre, in partnership with Korean authorities, for the preparation of its Rural Development Policy in Perspective. The collectivization process in agriculture led to disappointing economic results and to severe food crises at the end of the 1970s. The difficulty in developing economic diversification prompted the government to engage in a radical policy shift, the Doi Moi, and to launch the renovation of the economy with a move towards a market-oriented economy. For long, rural development policies did not exist, as such. A specific rural development strategy, going beyond the classic agricultural objectives, emerged in 2007 and translated into the *New Rural Development Program* (NTP-NRD). The program put emphasis on three elements: a willingness to mobilize rural communities, and thus to support local initiatives through public investments; the objective of limiting urban-rural disparities through multidimensional policies (economic and social); and strong commitment from the government at the different administrative levels. The country was able to adapt to the challenges of globalization, although the cost is rising in social and spatial inequalities. To deal with the growing costs of urbanization and the challenges of climate change, the long-standing tradition of top-down approaches will have to connect with necessary bottom-up processes.

**Keywords:**

Structural Change, Rural development, Thailand

**Résumé**

Cette étude a été financée par le Centre de développement de l'OCDE, en partenariat avec les autorités coréennes, pour la préparation de ses recommandations en termes de politique de développement rural. Le processus de collectivisation dans l'agriculture a conduit à des résultats économiques décevants et aux graves crises alimentaires à la fin des années 1970. La difficulté pour diversifier l'économie a incité le gouvernement à engager un changement radical de politique, le Doi Moi, et à introduire des mécanismes de marché. Pendant longtemps, les politiques de développement rural n'existaient pas. Une stratégie spécifique de développement rural, allant au-delà des objectifs agricoles classiques, a émergé en 2007 et s'est traduite dans le Programme de développement rural nouveau (NTP-NRD). Il a mis l'accent sur trois éléments: une volonté de mobiliser les communautés rurales, et donc de soutenir les initiatives locales par le biais d'investissements publics; l'objectif de limiter les disparités urbaines-rurales grâce à des politiques multidimensionnelles (économiques et sociales); et un fort engagement du gouvernement aux différents niveaux administratifs. Le pays a été en mesure d'adapter aux défis de la mondialisation, même si le coût est à la hausse des inégalités sociales et spatiales. Pour faire face aux coûts croissants de l'urbanisation et aux défis du changement climatique, la longue tradition des approches top-down devra se connecter avec les processus bottom-up nécessaires.

**Mots-clés :**

Changement structurel, Développement rural, Thaïland

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Pour citer ce document :

Marzin, J. et Michaud, A. 2016. Evolution of Rural Development Strategies and Policies. Lessons from Vietnam. Document de travail ART-Dev. 2016-5. 31 pp + annexes

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## Introduction and methodology

This country case review on Vietnam is a desk study which was completed by a five-day mission in the country from April 20 to 24, 2015. The mission included Jacques Marzin, Cirad, Karlheinz Knickel, consultant for OECD, and Thang Nguyen, OECD Development Centre. It focused on interviews and meetings with major stakeholders from the government (ministries), public agencies, public-private partnerships and private platforms, research institutions, and donors. The organisation of the mission benefited from helpful support from the Government of Vietnam and OECD.

The report was prepared by identifying accessible documentation – major policy documents, relevant research work (see Bibliography) – and by using international databases (e.g. WDI, FAO, UNCTAD, and Comtrade) and national websites resources, when possible. Access to information, and particularly reliable data and long-time series, was a major difficulty. This constraint, as well as the short time allocated for this work, created a drawback for an in-depth analysis of rural development policies in the country and prevented any effective assessment of their outcomes.

As a consequence of these limitations, the adopted methodology was to engage in a periodization of rural development policies and agricultural policies, the latter being a major component of rural development, attributable to the weight of agriculture in the rural economy. The identified policies were put into perspective with the broader context of national development strategies over the last fifty years. This approach made possible a sequencing of successive policies and the presentation of their rationale, orientation, objectives and major characteristics. This overview of successive public policies was completed by a review of insights on what have been the major developments in rural areas with regard to productive sectors and rural welfare.

The report is organised as follows. The first section sets the scene and presents the major characteristics of the country with regard to its geography, political system and administrative structure, demography and population, and macro-economic trends. The second section proposes a sequencing of development strategies since the 1960s with relation to national and international dynamics. The third section discusses the evolution of agriculture and rural development policies within the overall development framework. It is followed by a tentative review of the major rural development outcomes. The last section proposes main lessons learned from Vietnam's experience.

## Section 1. Country overview

### 1.1. Main geographical characteristics

Vietnam covers a total area of about 331 211 km<sup>2</sup>, of which around 33 % was under cultivation (more than 11 million ha) in 2012. It is a long and somewhat narrow country, with a north-to-south distance of 1 650 kilometres, and is about 50 kilometres wide at the narrowest point. In consequence, it has a long coastline of 3 260 kilometres, excluding islands.

About 25 per cent of the total land area consists of plains, the most important being the Bac Bo in the North and Nam Bo in the South, corresponding with the courses of the Red River and the Mekong River, respectively. Mountains and hills cover more than three-quarters of the territory, although over 70 per cent of the country lies below 500 m above sea level.

Vietnam has a hot, humid and rainy climate. It is characterized by four separate seasons – spring, summer, autumn and winter – in the north, and a tropical climate with only two seasons – dry and wet – in the south. Average annual precipitation is around 1820 mm. It varies, on average, from 1600 to 2200 mm in the midlands and plains, and 2000 to 2500 mm in the mountainous areas. A minimum of 650 mm can be experienced in Phan Rang in the South Central region, and a maximum of 4760 mm in Bac Quang in the North East region. The rainy season lasts from April–May to October–November.

More than 8 million ha are irrigated, corresponding to three-quarter of cultivated land. This is a major result of the history of the country, with continuous investments to improve the irrigation system. The importance of the two deltas explains that up to 16 % of the country's area, and 35 % of its population, would be impacted on by a rise of 5 m in sea level (Dasgupta, 2007).<sup>1</sup> Climate change would also lead to salinization of irrigated deltas and higher risks of extremes events (typhoons).

### 1.2. Political system and administrative organization

Vietnam is divided into 64 provinces, including the capital, Hanoi. Based on topographic, climatic and socio-economic conditions, these provinces are gathered into eight regions from north to south: North West, North East, Red River delta, North Central Coast, South Central Coast, Central Highland, South East, and Mekong River delta (see map in annex). The state institutions include a National Assembly, which has constitutional and legislative functions. The National Assembly elects the chief of the Executive, the State President. The Government is the executive organ of the National Assembly. The Supreme People's Court is the highest judicial structure of the Socialist Republic of Vietnam. The Supreme People's Procuracy ensures the implementation and enforcement of the Constitution and laws. Local People's Procuracies are found at provincial and district levels. At the provincial and district communes, as well as in centrally administrated cities, there are People's Councils, People's Committees and People's Courts.

The current political system of Vietnam is made up of various organizations: the Communist Party of Vietnam (CPV) and a range of other political, socio-political, socio-professional organizations and mass associations. It is worth noting that (i) centralization remains a characteristic of the political and administrative system, (ii) the country is organized with a double command system, the CPV and the State, and (iii) as a

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<sup>1</sup> 10.8 % for a 1 m sea level rise (SLR).

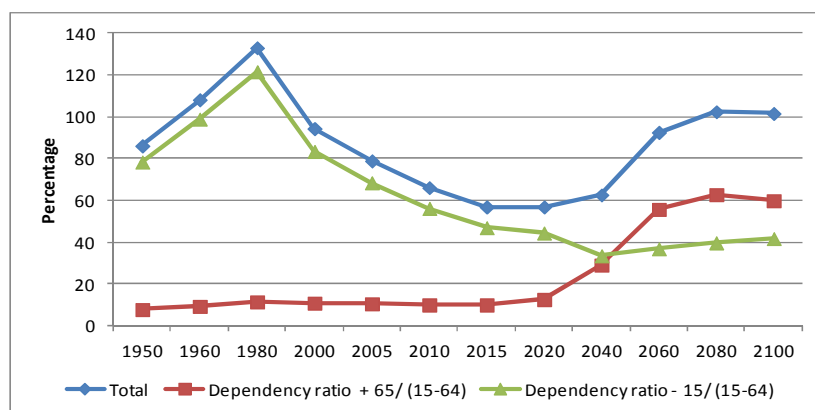
consequence, policy making is quite complex: it combines local experimentation and a long process of consensus building between the different powers and political and administrative levels of the country.

### 1.3. Demography and population

The Vietnamese population has multiplied by close to threefold during the last 50 years, growing from 34 million in 1960 to 93 million, estimated in 2015. During this period, Vietnam has experienced its demographic transition. Indeed, the crude birth rate dropped from 43 per 1000 in 1960 to 16 per 1000 in 2012. However, most of this decrease occurred between 1993 and 2003. This can be explained by the drastic reduction in the fertility rate, which fell from 6.3 births per woman in 1960 to 1.8 in 2012. This is a major result of the long-lasting family policy, which emphasized the “*mot hoac hai con*”, which means “one or two children” per family.

Therefore, Vietnam has already started benefiting from its demographic bonus, together with an improving dependency ratio (inactive vs active people). This bonus should end by 2040 (Figure 1).

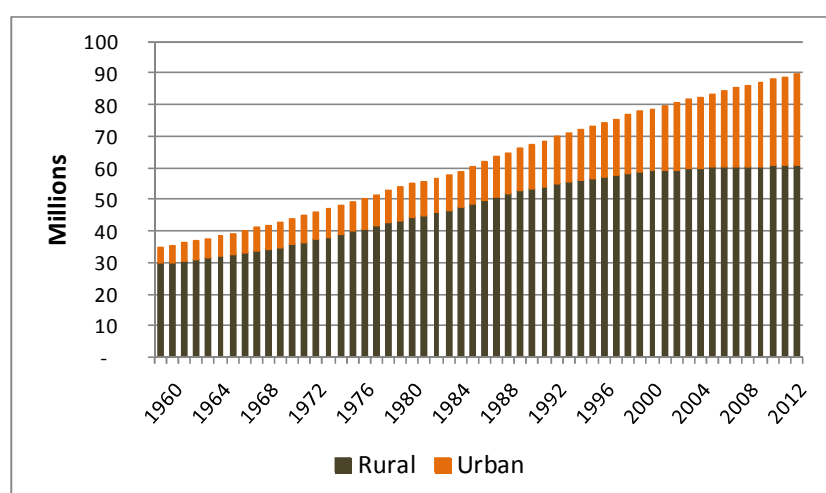
**Figure 1 – Evolution of dependency ratio (1950–2100)**



Source: Marzin, 2013

Population density is high: 279 people per Km<sup>2</sup>, with important differences between regions (45 in Lau Chau, and 1244 in Hung Yen). Regarding the distribution of the population, Vietnam had a rather weak urbanization dynamic. Between 1960 and 2013 (Figure 2), the urban population only grew from 5.1 million to 28.9 million (14.7 % and 32.3 %, respectively, of the total). This urbanization growth is slower than the average in East Asian countries. However, urbanization occurred in two waves: a first wave at lower pace between 1960 and 1970, during the war, and a more rapid increase since the 1990s. Concerning the size of cities, the percentage of the population living in cities of more than 1 million inhabitants increased from 6 % in 1960 to 14 % in 2013. It is worth noting that 60 million people still live in rural areas (67 %), which is a challenge for rural development policies. The rural share has started to decrease, but should remain at 46 % by 2050.

**Figure 2 – Evolution of the rural- urban distribution (1960–2013)**



Source: WDI

Vietnam has two main –“special class” – cities: Hanoi in the Red River delta region (1.5 million) and Ho Chi Minh City (3.5 million) in the Mekong river delta. After these two, come the “first class” cities: Hai Phong, Can Tho, and Da Nang (in decreasing size, cf. map in annex).

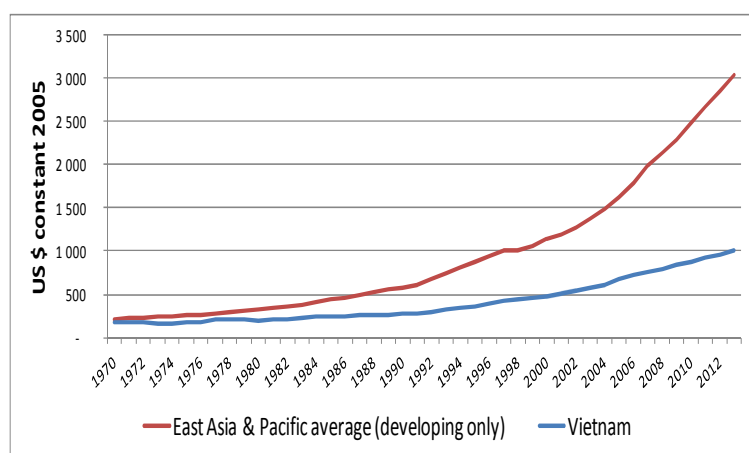
Due to the strong decrease of demographic growth, Vietnam’s population will only achieve 10 million additional people by 2050 (an expected total of 104 million). At that date, 37 % of the population will be older than 65, which is a challenge in terms of social protection. Since the current retirement age in Vietnam is 55 for women and 60 for men, the challenge is much more severe. However, the Vietnamese population is still young: the median age is 29.2 years; 23 % are less than 15, and 40 % are less than 24. With a yearly cohort of youth entering the labour market estimated at 1.5 million, the country will have to create 15 million jobs within the next 10 years and, with the existing urban–rural distribution trend (WUP, 2014), 10 million in rural areas.

#### **1.4. Main macro-economic characteristics**

The GDP grew sixfold in constant prices between 1985 and 2012, from 15.7 billion to 92 billion US\$. The main period of growth occurred after 1990, following the Doi Moi policy shift, and then after 2000, when Vietnam accelerated its integration into the world economy. Figure 3 shows that the GDP per capita in Vietnam increased at a slower pace than in other East Asian developing countries. Due to its partial connection with the rest of the world at that time, the country escaped the impact of the 1997 Asian crisis.



**Figure 3 – Evolution of the GDP per capita (1970-2013)**

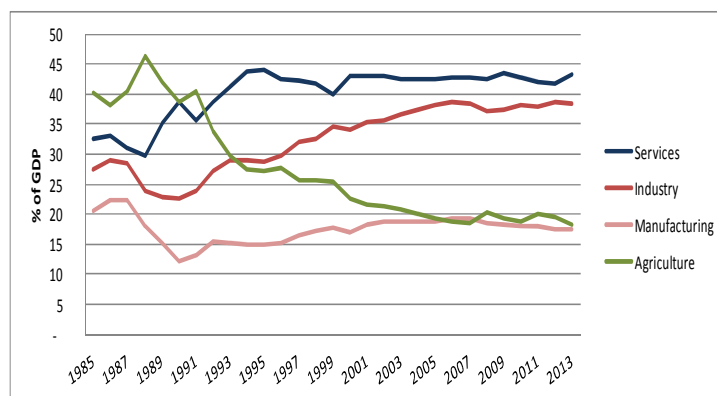


Source: UNCTAD and WDI

### Sector shares in GDP and employment

Industrialization in Vietnam started later than in other developing Asian countries, such as Thailand, Indonesia and Malaysia. There was, however, a real transformation in the structure of the economy, mainly between 1987 and 2000, with a strong decrease in agriculture's share, from 40 % of the GDP in 1985 to 18 % in 2012. In comparison, the shares of industry and services increased respectively from 32 % to 43 %, and from 27 % to 38 % of the GDP. The increase in industry is mainly attributable to electricity-, gas- and water-related activities, as well as construction, while manufacturing's share did not progress much.

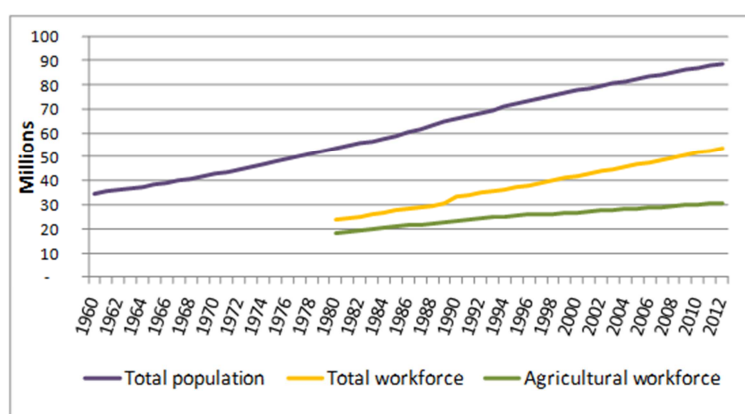
**Figure 4 – Evolution of the structure of GDP (1985–2013)**



Source: WDI

Employment data by sector is only available from 1980 onwards. Nevertheless, within this period, we can see a major change in the share of employment by sector. Indeed, the share of agricultural employments quickly decreased from 76 % of the workforce in 1980 to 59 % in 2012. Nevertheless, in absolute terms, the number of people employed in agriculture strongly continued to grow from 18 million in 1980 to 31 million in 2012 (Figure 5).

**Figure 5 – Evolution of the workforce**

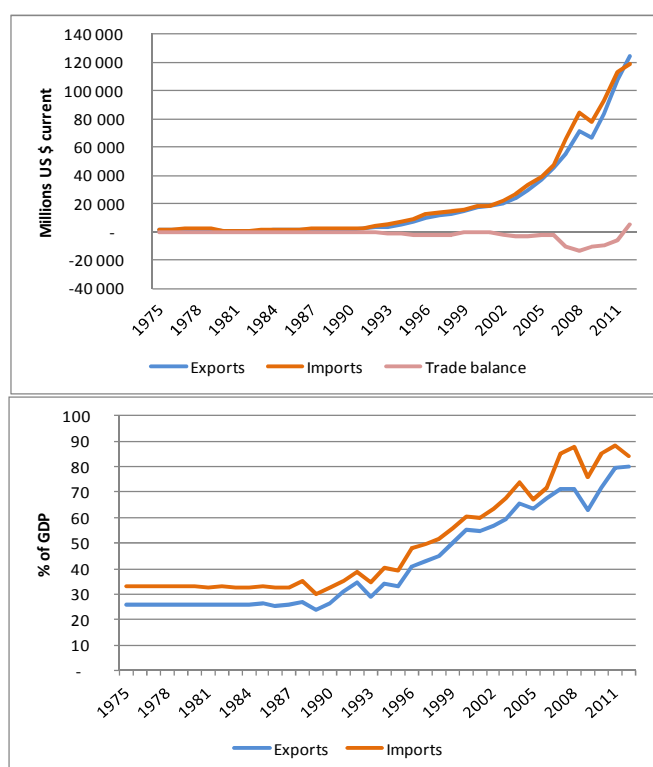


Source: UNCTAD and FAO

### International trade and payment accounts

Between 1975 and 2012, international trade “skyrocketed”. Exports increased 123 times (from 1 billion in 1975 to 124 billion US\$ current in 2012 (26 % and 80 % of the GDP, respectively). Imports followed the same trend. The take-off quickly occurred from the mid-1990s and growth was only interrupted by the 2008 financial crisis, which resulted in a short trade deficit.

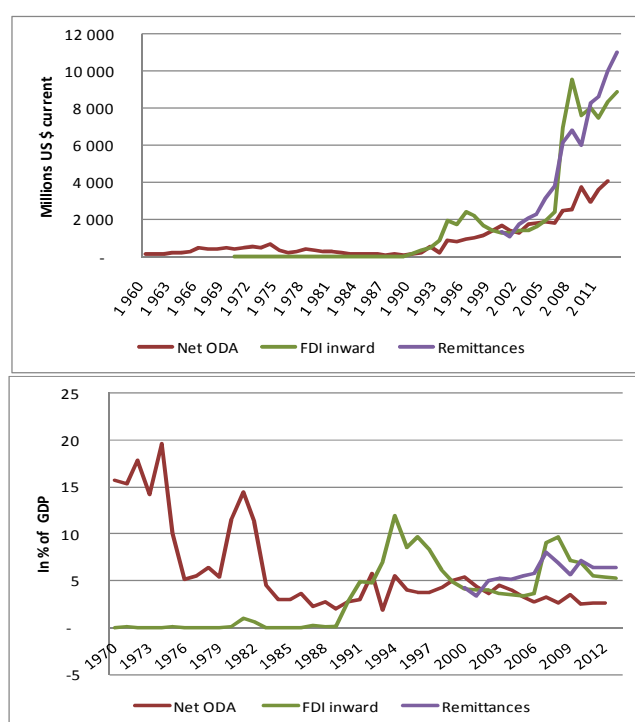
**Figure 6 – Evolution of imports and exports of goods and services (1975–2012)**



Source: UNCTAD

The war period, which ended in 1975, complicates the interpretation of figures before that date. However, overseas development assistance (ODA), which had been supporting the South Vietnam regime, dropped after the victory of the Communist North. After a short increase in the early 1980s, it remained at around 5 % of GDP (only 2.6 % for 4.1 billion US\$ in 2012). It was quickly overtaken by foreign direct investments (FDI) and by remittances in the 2000s.

**Figure 7 – ODA, FDI and remittances**



Source: UNCTAD

Even if there are no data available before 2000, remittances had reached a total of 11 billion in 2013 (6.4 % of GDP). This is much more than in its immediate neighbours, such as Cambodia, Malaysia and Indonesia (below 2 %), but less than in the Philippines (10–12 %). The transfers mostly emanate from the migrant communities which developed during wartime, and after the collapse of South Vietnam, in North America and Western Europe.

FDI reached 8.9 billion US\$ in 2013, with a strong increase in the early 1990s and a second push just after the 2008 crisis. Vietnam first became an attractive location for the low-cost textile industry, but quickly upgraded its position towards higher value added activities (electronics). Increasing labour costs in neighbouring China will make Vietnam even more attractive in the coming years. Many Chinese firms are following a China+1 strategy to move factories out of China, but retaining a close proximity to China, and Vietnam is best positioned.

In conclusion, it is worth noting that:

- Agriculture remains a major source of employment. Its low labour productivity translates in challenging rural poverty rates;
- Vietnam has not suffered all that much following the 1997 Asian crisis because the structure of its external trade was more connected to the global market than to its Asian neighbours, and also because of the high share of agricultural exports (raw products and commodities connected to international markets, which benefited from price increases);
- Up to now, exports were prioritized by the government and attracted economic growth. The domestic market remains largely untapped.



security. It aimed to achieve food self-sufficiency, first for agricultural households and then for the whole country. However, severe food shortages and crises were experienced in 1974, 1977 and 1978.

In 1968 in the North, in 1978 in the South, the choice of widespread collectivization resulted in cooperative and state-farm control over the means of production, including land. Collectivization was implemented particularly in rice production areas. The state heavily financed infrastructure, especially irrigation. Agriculture capital intensity increased fivefold, electrification ninefold, and the number of tractors and machinery elevenfold. Trade, and agricultural extension, were directly supported by the state.

China's strategy of productive capital accumulation based on surpluses in agriculture, then used to develop a national industry, inspired Vietnamese leaders. However, results in agriculture were disappointing and led to the strengthening of collectivization: a two price systems was set up, as well as grants to boost production. The economy experienced a period of hyperinflation. In addition, limitations were imposed on domestic trade and the export of agricultural products. As food production did not progress, a first liberalization attempt took place in 1980, with Decree No 100 which implemented contracts for farmers and authorized them to sell on the market any production surplus beyond of their contract requirements.

### 2.3. *Doi Moi* (1986–2007)

The *Doi Moi* or “renovation” started in December 1986 with the Decision No 10, which formally abandoned central planning, prepared the shift to a market economy and initiated a process of liberalization in order to promote a “socialist-oriented market economy”. As such, the country, to some extent, experienced its own structural adjustment process. *Doi Moi* can be split into two periods. The main objective of the first stage was to reverse the dramatic economic situation characterized by hyperinflation, external deficits and recurrent food crises. One of the main challenges was to create the conditions required for food self-sufficiency. The state control on the population's movement limited rural depopulation.

Therefore, the first set of policies dealt with the agricultural sector: de-collectivization and a shift to a family-based economy, in order to promote domestic food production and to limit food imports. The success of reforms in this sector limited the income gap between rural and urban workers. These results contributed to limited migrations to the cities during the *Doi Moi* period. Within this context of liberalization, rural development issues were considered as being secondary.

The reforms were implemented firstly in the South (1986) and then in the North, two years later. They dealt with:

- The role of the state: the centrally organized management system, dependent on state subsidies, was abolished. In 1987, domestic trade was liberalized. Privately owned enterprises, specialized in commodity production, were allowed by the Communist Party and later encouraged. In 1990, the Law on Private Enterprises, which provided a legal basis for private firms, was enacted, while the Companies Law recognized joint-stock companies and private limited liability companies. The 1992 constitution officially acknowledged the role of the private sector.
- Land redistribution to farmers: since 1988, the peasant family has been considered an independent economic unit (Bey et al., 1996). In order to create favourable conditions for developing agricultural production by mobilizing productive capital and labour, “the legal status, the protection of legitimate rights

of work, household income is acknowledged” (Resolution No 10, 1988). A significant proportion of existing cooperatives divided all their land between members. The cooperatives were allowed to keep upstream services (inputs marketing and management of irrigation water), although very rarely to participate in marketing. In 1993, a new land tenure law extended land use rights to 20 years for the production of annual crops and to 50 years for perennials.

- Incomes linked to effective production: the establishment of contract farming between the family farmers and their cooperatives or the State was a very efficient way of improving production, through autonomy of management within family farms and strong state support for agricultural services. These contracts facilitated in clarifying the rights on land use.

During the first stage of *Đổi Mới*, the de-collectivization did not mean the withdrawal of the State. The controls from the Ministry of Agriculture remained strong. The government promulgated a range of decrees aimed at improving investment and technological innovation: Decree 13/CP (March 1993) dealt with the development of extension services to farmers; Decree 14/CP addressed credit for extended agricultural and rural development; and Decree 12/CP reformed state-owned agricultural enterprise management.

Based on the good results achieved, a second set of reforms was undertaken. In addition to food security, the objective was to generate revenues from external trade and win market share through an aggressive export strategy, based on low export prices (e.g. rice or coffee). Food imports decreased dramatically and agriculture became to be the major source of foreign currency earnings. Urbanization growth also began to increase competition for land. The surplus of agriculture production facilitated co-investments with Foreign Direct Investments (FDI) in industry. Light manufacturing developed and attracted workforce from rural areas.

Two major changes affected land tenure. The first was the recognition of commercial farms (*Trang Trại*), which were allowed to hire workers. They fell under specific regulations with regard to access to land and credit, employment of labour, payment of taxes and protection of invested assets. These farms were required to maintain a turnover exceeding 40 to 50 million VND, depending on the region, and a cultivated area larger than the average size of family farms providing the same products. The second change allowed the inheritance of land use rights, as well as their use as a credit guarantee (decree No 17 of 1999).

The good results in agriculture facilitated an acceleration of structural changes. The development of exports required a greater openness of the Vietnamese economy. That is the reason why Vietnam signed agreements with the European Community in 1992, with the USA in 2002, and integrated the ASEAN in 1995, and the WTO in 2007. During this period, foreign direct investments developed in textiles first, and then in electronics. The *Đổi Mới* reforms resulted in a determinant increase in both national and international private investments. In agriculture, they led to a strong growth in national food security and exports. This development has resulted in an accelerated market integration of family farms, an increasing investment capacity, and in the ability of farm households to diversify into non-agricultural income (Marzin, 2014). It also led to growing inequalities related to land access, and to a divergence of income levels between agriculture and the other economic sectors (rising gap in value added per

worker).<sup>2</sup> This trend called for a crucial need to improve labour productivity in agriculture in order to limit the exiting of young rural workers from agriculture.

## **2.4. Bases for a Welfare State (2008 to present)**

The fast integration of Vietnam into international markets generated high economic growth, but it also led to increasing disparities between rural and urban areas, between urban and rural dwellers, and between formal and informal sectors, as well as to a rising divergence between agriculture's and industry's productivity. This critical evolution, as well as the international food price crisis of 2008, basically explains the main changes in agricultural policies and the emergence of a new thinking about managing social and spatial inequalities.

This management of the on-going structural change, characterized by a decreasing weight of agriculture, implied three major shifts:

- The first was the necessity to complement agricultural policies with social and investment policies in order to reduce poverty in rural areas;
- The second dealt with the idea of integrating policies (and administration) through National Targeted Plans, which were implemented to improve coordination;
- The third was the shift from state redistribution to the generalization of insurance schemes.

These orientations can be considered as premises of a welfare state.

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<sup>2</sup> The ratio decreased from 0.47 in 1996, to 0.35 in 2006, and 0.23 in 2011.



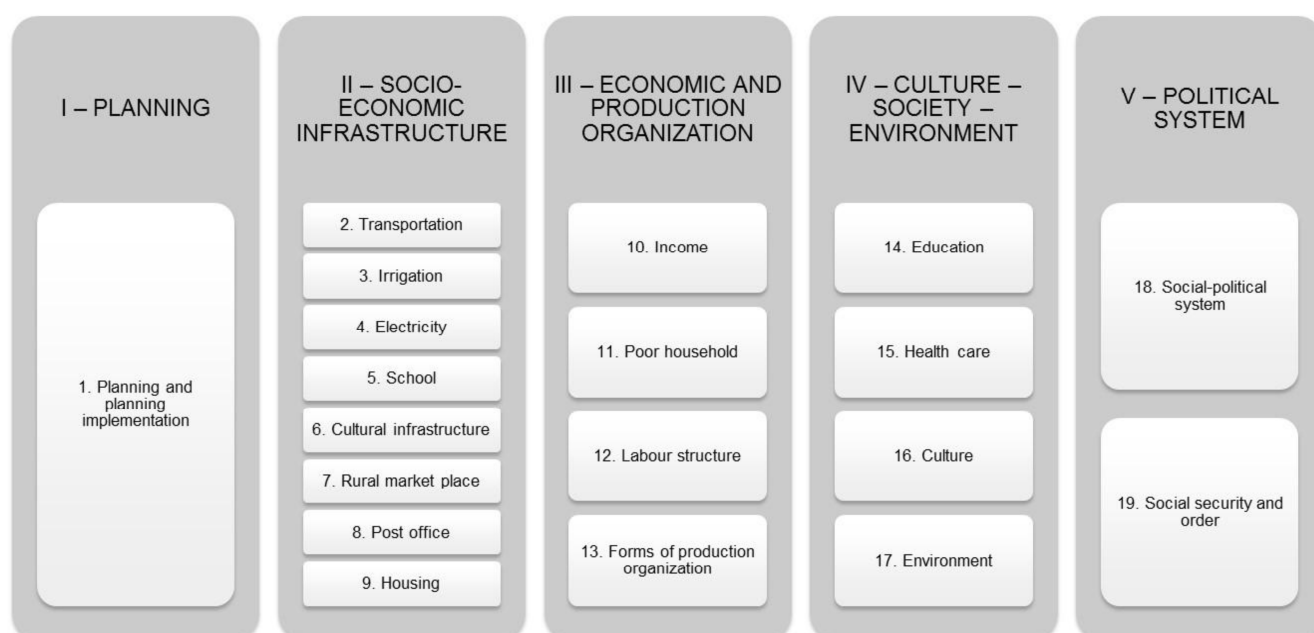




necessary: (i) to consider rural development through a multi-sectorial approach in order to diversify sources of incomes and increase overall rural income and, consequently, to identify regional specialization; (ii) to mobilize the rural population in building new infrastructure (schools, health centres, sanitation, road, irrigation, etc.) through effective participation in the decision-making process; and (iii) to implement a multidimensional approach to reduce poverty, including social and empowerment issues.

Up to now, the Ministry of Agriculture remains as the leader of the program, while its implementation is assigned to line ministries, depending on the dimensions considered. This program sets out 19 minimum criteria required to consider a village as meeting “new rural” standards. These criteria span across social, economic, cultural and environmental aspects.

**Figure 10 – The 19 criteria of the new rural standards**



Source: Trang et al, 2014

The strategic vision of the new rural development program endeavours to break with previous policies. The new approach supports a reorganization of the economy with a strategic and planned vision at a commune and village levels. This implies strengthening the administrative management capacity and mobilizing local initiatives. The set of policies has to integrate infrastructure (roads) with social and human capital objectives (schools, health, etc.), as well as with classical sectorial policies. This planning allows the development of geographic specialization by cluster, when opportunities exist (e.g. rice, coffee, or pepper).

Concerning the agricultural component of this policy, several shifts can be identified or expected. The first change deals with productivity issues. As intensification through inputs reached its limits, the objective of increasing land productivity has moved towards labour productivity increase. This implies that farms become larger (from an average of 1 ha to 5 or 10 ha) and small and scattered plots are consolidated to facilitate mechanization (this is particularly the case in the Northern delta). The second shift affects farming. Safety issues in food production are crucial for upgrading exports, as well as for Vietnamese consumers’ trust in domestic production. Contract farming can contribute to improving the quality of food production and to generating additional value added for rural areas, while contributing to their diversification.

The policy-making process of this reform is quite interesting. It started with Decree No 24 on village mobilization to build infrastructure. It followed up with the Congress of the Vietnamese Communist Party of 2008 (Resolution No 66) which defined the main lines of the reform. Then, a long 5-year process started, aiming at analysing foreign experiences, including the Japanese OVOP (One Village, One Product), Korean Saemaul Undong, and German farmers' vocational schools. Five years were necessary to translate VCP orientations into law. Eventually, in 2010, the *National Target Program on New Rural Development* was implemented, firstly at small-scale and local level.

After five years, partial evaluations were conducted, from which the following conclusions can be drawn:

- The integration of policies at local level is the key point of this program. During the implementation, it was noted that coordination was effective at the local level for the definition of plans (through steering committees at the commune level), but not for the allocation of resources controlled by the different ministries. One example is food processing that comes under the Ministry of Industry, and not the Ministry of Agriculture.
- As pointed out by the Ministry of Labour, Invalids and Social Affairs (MOLISA), civil servants are not adequately prepared for local development processes. That is the reason why vocational training has been considered for improving their capacity.
- Resources mobilization, especially from the private sector, is not effective. Investments for rural development accounted for only 3.7 % of national private investments in 2014.
- The challenge of participation encounters two difficulties. The first one stems from rural communities awaiting external support. Consequently, the definition of investment programs may be difficult. The second difficulty comes from opposite situations, where communities ask to have the control of the process, justified by their monetary or in-kind contribution to investments. But this claim goes against the Government's centralized practices. The lack of civil society and grass-root organizations means that there is no systematic feedback on plan designs and their implementation.

Notwithstanding the official discourse, the policies remain fragmented. There are currently 31 National Targeted Programs, many with overlapping functions and objectives. In addition, each line ministry and province has its own sectorial/provincial program. Inter-ministerial coordination is weak in practice, even if there are periodic meetings among the deputy ministers to review the progress. The government is currently planning to consolidate these many programs into two programs, the *New Rural Development Programme* and the *Sustainable Poverty Reduction programme*.

The program also appears to be overly ambitious. The implementation of the plan has mostly focused on infrastructure, with cumulative investment from 2010–2014 amounting 8 billion US\$. These projects are mostly financed by local residents: 17 % comes from central government, 13 % from provincial and local government, 4 % from private enterprises, 11 % from financial donation from local residents, and the rest (55 %) from land and labour donations from local population. There is also a dedicated fund to provide credits for these projects. So far, about 980 communes out of almost 10 000 communes have been certified as "New Rural". They are already the better-off ones. For lagging regions, it will be difficult to catch up.

The main challenges that the Vietnamese government faces in the implementation of these new policies are:

- Deconcentration and decentralization. The NRDP requires vast changes in the organization of public administration at commune level, and capacity to deal with civil society and local authorities. Decentralization issues deal with substantial and permanent transfers of state budget to the poorer provinces and communes.
- Long-term support for income diversification in rural areas, through industry or services (tourism). Capacity building, and share initiatives among associations, communes, and provinces, in order to catch new markets, have to be founded in a long-term strategy.

### 3.3. Regional development policies: a complement or a next step?

Regional development policies progressively appear in the official policy framework as a consequence of growing spatial inequalities, a voluntaristic spatial planning dealing with territorial opportunities and constraints, and also of local coordination issues. Apart from their connection to the *New Rural Development Program*, regional policies mainly focus on two targets: the remote areas, where the *Committee for Ethnic Minorities Affairs* develops multidimensional regional development programs, and cluster development in order to foster competitiveness, as well as to deal with externalities.

The old approach to regional development was about only planning the location of public investments. Currently, this approach has shifted to a vision where clusters, economic corridors and transport infrastructure facilitate trade in goods, services and human resources between complementary activities. It allows considering the relocation of industries using unskilled labour from more developed, coastal provinces, to less developed ones where labour is cheaper.

This cluster approach can be used for non-agricultural sectors (on tourism, electronics, etc.), as well as for agriculture involving specific crops with high value. For example, the mechanization of agriculture is thought of as providing an opportunity to create a cluster around mechanical equipment. Specific infrastructure is also dedicated to the establishment of industrial areas, particularly for firms relocating from China.

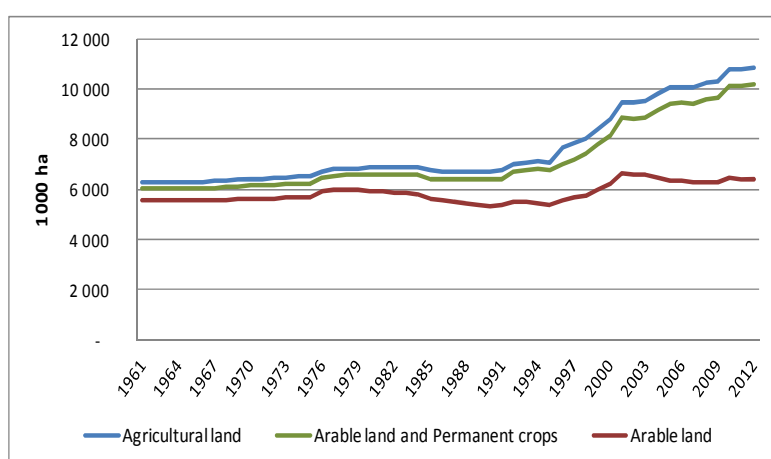
Environmental concerns in the megacities of Ho Chi Minh and Hanoi have also led to a process of “de-urbanisation of industry”, especially for the textile and garments industry, for which the benefits from agglomeration is lower. A network of secondary and tertiary cities is emerging, notably along major transportation routes (Route 1 and Route 5). These agglomerations are large enough to attract private investment in services, evidenced by new branches of hospitals in Hanoi and Ho Chi Minh being built. These dynamics help the development of rural non-farm activities in the surrounding areas, although they also lead to an increasing competition for land resources and related conflicts.

## Section 4. Main rural development outcomes

### 4.1. Insights about the evolution of agriculture

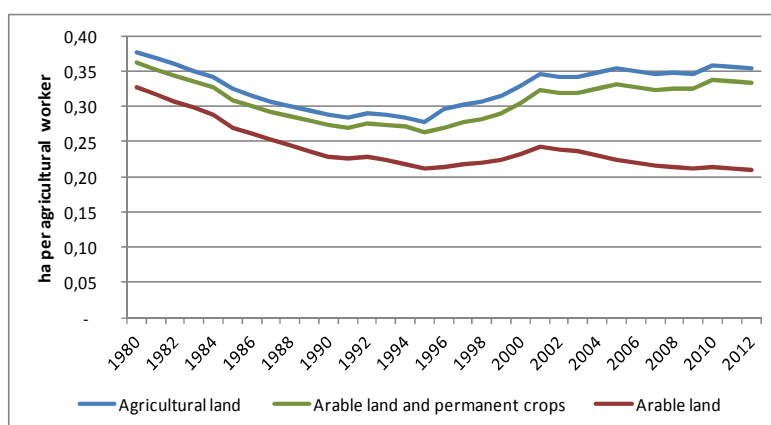
The Vietnamese rural economy is still largely linked to agriculture. A major fact is that, with just 33 % of land, agriculture is concentrated in the plains of the coastal deltas and in some valleys of the mountainous areas. Figure 11 shows that arable land (see definition in annex) began to increase with *Doi Moi*. Between 1985 and 2011, it grew by 59 %. The combination of limited cultivated land and the high number of agricultural workers explains that available land per worker remains quite limited, with 0.2 ha per worker in 2011. However, the cultivated area per inhabitant has decreased by twofold since 1960, because the growth of arable land has been slower than that of the population.

**Figure 11 – Evolution of available land (1961-2012)**



Source: FAO

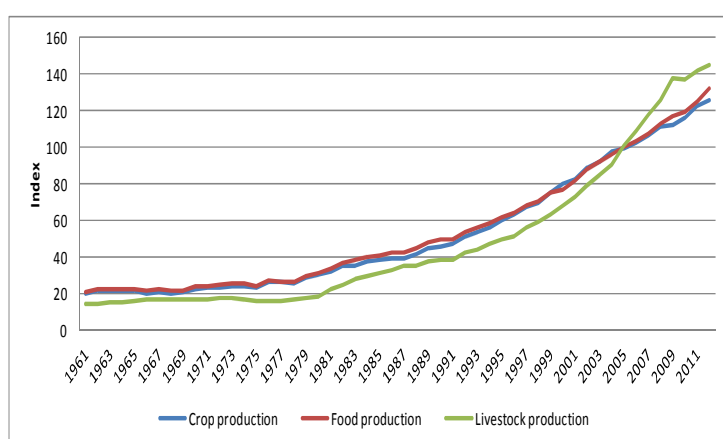
**Figure 12 – Evolution of available land per agricultural worker**



Source: FAO

This increase in the cultivated area was accompanied by a sharp increase in land productivity. Agricultural production increased 6 times faster than the cultivated area between 1961 and 2011 (and by 5 times when excluding the war and collectivization periods, i.e. since 1985). During the same period, the value added per agricultural worker increased by 68 %, but it was half the value added of the average Vietnamese worker in 1995 and the gap has continued to increase (only a quarter in 2011).

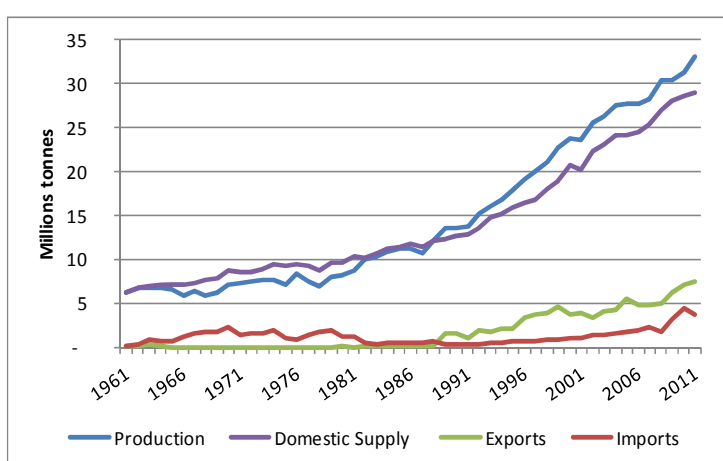
**Figure 13 – Evolution of production index (2004–2006=100) (1961–2012)**



Source: WDI

Before 1989, the Vietnamese production was not sufficient to respond to domestic demand, and the country had to import huge quantities of rice: on average, more than 1 million tons a year were imported between 1966 and 1974 (nearly 2 million in 1970), and around 0.4 million tons between 1984 and 1988. With the *Doi Moi*, Vietnamese cereal production overtook the domestic demand and the country switched towards exports.

**Figure 14 – Evolution of cereal balance (1961–2011)**



Source: Faostat

Investments in agriculture focused firstly on irrigation. In 2012, more than half of all arable land was irrigated (Table 1). This explains the high level of land productivity, because irrigation allows for several harvests a year (up to 3 for rice, much more for vegetables).

**Table 1 – Irrigation development (1961–2012)**

	1961	1966	1971	1976	1981	1986	1991	1996	2001	2006	2011	2012
<b>Total irrigated land (1000 ha)</b>	1 000	1 000	1 200	1 400	1 800	2 600	2 900	3 150	3 850	4 600	4 600	4 600
<b>Total irrigated (% of arable land)</b>	18	18	21	24	30	47	54	57	58	72	72	72

Source FAO

Since 1990, the use of agricultural machinery has increased. Over the last decade, the rate of tractors per 100 km<sup>2</sup> of arable land increased from 66 to 262, but motorization per agricultural worker remains marginal (0.005 tractor per worker).

**Table 2 – Agricultural machinery**

	1961	1966	1971	1976	1981	1986	1991	1996	2000
<b>Number of tractors</b>	11 600	14 100	16 500	18 397	24 534	30 768	35 375	109 501	162 746
<b>Tractors per 100 km<sup>2</sup> of arable land</b>	21	25	29	31	42	55	66	197	262

Source: WDI

Investment in rural areas remains very low. However, the financial crisis led investors to look for new opportunities. Domestic conglomerates, such as *Vin Group*, have invested in agriculture and food processing to meet the demand for food safety and quality of the emerging middle class. Domestic firms, like *TH Milk*, a dairy company, have invested the whole value chain with foreign technology and know-how. This new wave of domestic investments complements existing foreign firms in the agricultural sector, such as *Charoen Pokphand Group* (Thailand) and Korean cut-flower companies. The question of inclusion of small-scale farmers and small-scale farmers' benefits remains open, particularly with reference to the existing rural poverty.

Improving farmer income faces multiple challenges:

- Farm sizes remain too small and the plots too scattered
- The cooperation between farmers is weak
- Contract farming has been marred by a lack of credible enforcement, both parties breaking the contract when market prices serve them better.
- Domestic consumers have little confidence in food product safety, especially of domestic products, because there is no systematic traceability from the producer to the consumer
- Storage facilities are lacking and farmers cannot benefit from price cycles
- Upstream industries are missing. Currently, only fertilizers can be produced domestically; other inputs and machinery still have to be imported.

More generally, the objective of agricultural policies has to shift from the old land productivity paradigm, dating from the green revolution, to the labour productivity paradigm.

## 4.2. Rural welfare

### Poverty reduction policies

In Vietnam, the \$2 (PPP) poverty rate has drastically decreased over the last 25 years. Indeed, the percentage of the population living on less than 2\$ a day (PPP) declined from 86 % in 1995 to almost 13 % in 2012. This means that the majority of the Vietnamese population has been lifted out of poverty. The 1.25 US\$ (PPP) poverty rate followed the same trend: it dropped from 64 % in 1993 to only 2 % in 2012. Nevertheless, these international indicators do not completely express the effective conditions of living. If the national poverty line is considered, nearly 21 % of the

Vietnamese population were still poor in 2010, and 17 % in 2012, which means a significant part, even if declining.

The “Social cohesion policy review of Vietnam” produced by OECD (2014) shows that although the Doi Moi economic reforms allowed a global improvement in living standards, job creation, growth inclusiveness and social inclusion, and mobility remain challenging.

**Table 3 – Evolution of poverty (% of population)**

	1993	1998	2002	2004	2006	2008	2010	2012
<b>Poverty at \$2 a day (PPP)</b>	85,7	78,1	68,7	60,4	48,1	43,3	16,8	12,5
<b>Poverty at \$1.25 a day (PPP)</b>	63,8	49,4	40,1	31,4	21,4	16,8	3,9	2,4

Source WDI

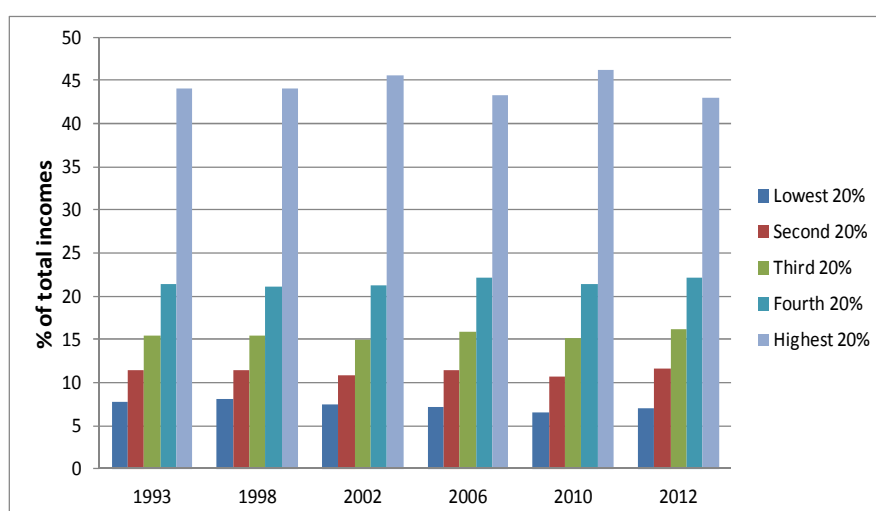
The general and untargeted redistribution of the beginning of *Doi Moi*, based on income increase and subsidies, reached its limits owing to rising inequalities. As a consequence, Resolution No 30 (2008) allowed a change of policy objectives, aiming at reducing poverty.

- Firstly, most actions thenceforth targeted the poorest people and regions. Efforts were more intense in remote areas, in which most of the poor population (10 %) was concentrated. Ethnic minorities were a priority and their situation was addressed with the establishment of the Committee for Ethnic Minorities Affairs.
- Secondly, poverty was considered as not being just a monetary issue. This facilitated the development of a multidimensional strategy, tackling monetary issues, health, living standard, education, etc. Investments in public services were needed to achieve these goals. The limits of this strategy involve budgeting (who pays – state budget, provinces, or communes?) and governance issues (who manages the policy tools – state administration, local administration, or civil society?).
- Thirdly, resilience is now considered as being the future challenge for poverty reduction policies. Because of strong vulnerability to climate change, a part of the budget of social affairs is dedicated to mitigating the consequences of natural disasters on vulnerable households.

Poverty reduction strategy has moved toward adopting a people-centred approach and targeting the pockets of poverty. The government is devising a multidimensional poverty line, based on 5 criteria of access to basic needs. Through the poverty line, they dedicate measures toward direct support for households in the 94 extreme poor communes. There are also many policies to support ethnic minorities, who often reside in remote and laggard regions: capacity building and extension related to production, support on housing, access to land and water, preferential credit and investment support, training and information to transition out of agriculture are provided.

Regarding income inequalities, it is worth noting that the Gini Index remained stable at 0.35 from 1991 to 2011. Since 1993, the first 20 per cent of the Vietnamese population have more than 40 % of the national income, whereas the last 20 per cent have less than 8 % (Figure 15).

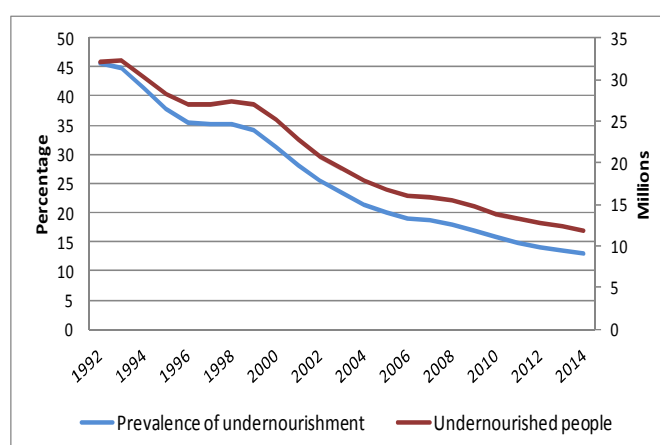
**Figure 15 – Evolution of income distribution (1993–2012)**



Source: WDI

In the first years of Doi Moi, agriculture was a good option for reducing undernourishment (Figure 16) and extreme poverty. Moreover, poverty is more frequent in rural areas: 22 % of the rural population is under the national poverty line, when just 5 % of the population in the urban area is.

**Figure 16 – Evolution of undernourishment in Vietnam (1992–2014)**



Source FAO Stat

It is worth noting that the quality of diet has deeply changed, with a strong increase in animal product consumption.

**Table 4 – Evolution and contribution to food supply (kcal/capita/day)**

	1961	1966	1971	1976	1981	1986	1991	1996	2001	2006	2011
<b>Grand Total</b>	1907	1916	1957	1890	2004	2065	1856	2018	2298	2482	2703
<b>Vegetal Products</b>	1769	1768	1829	1787	1880	1904	1690	1797	2004	2045	2129
<b>Animal Products</b>	138	148	128	104	124	161	166	221	294	437	574

Source: FAO stat

Agriculture has reached its limits in reducing poverty: a huge challenge exists for increasing labour productivity. The intensification through increasing use of inputs is difficult in the deltas, because of environmental problems. Increasing the area by worker implies structural changes in land issues. Diversification of incomes and increasing value



added through food processing or direct selling to urban neighbourhood are other solutions. But all this requires time. That is the reason why social policies are absolutely necessary in the short and medium terms.

### Social policies and human development

The Ministry of Labour, Invalids and Social Affairs (MOLISA) and The Ministry of Health play a key role in Vietnam. Health expenditure has increased by more than fourfold: from 49 US\$ PPP (constant 2005) per capita in 1995 to 233 US\$ in 2012. The increase occurred both in absolute and relative terms. The major increases in health expenditures occurred in 2004 and in 2010.

During the last 25 years, investments in sanitation and water facilities have been important. Indeed, the percentage of people with access to improved water sources increased from 62 % in 1990 to 95 % in 2012. It is interesting to note that a special emphasis was put on rural areas, since the percentage of rural population with access to improved water increased dramatically from 54 % in 1990 to 94 % in 2012.

The percentage of inhabitants with access to sanitation has doubled, from 37 % of the population in 1990 to 75 % in 2012. Once again, investments were focused on rural areas: the percentage of rural population with access increased from 31 % in 1990 to 67 % in 2012. The access to electricity is high in Vietnam, in both rural and urban zones.

**Table 5 – Evolution of welfare indicators**

	1990	1995	2000	2005	2010	2012
<b>Improved water source (% of population with access)</b>	62	70	77	85	92	95
<b>% of urban population with access</b>	90	92	94	96	97	98
<b>% of rural population with access</b>	54	63	72	81	90	94
<b>Improved sanitation facilities (% of population with access)</b>	37	46	54	63	72	75
<b>% of urban population with access</b>	64	71	77	84	91	93
<b>% of rural population with access</b>	31	39	47	55	63	67
<b>Access to electricity (% of population)</b>	88		89		96	
<b>% of urban population</b>	100		97		99	
<b>% of the rural population</b>	84		87		95	

Source: WDI

The infant mortality rate has sharply decreased: from 74 infant deaths per thousand births in 1960 to 19 in 2013. The mortality rate under 5 years old also decreased from 117 deaths per thousand births in 1960 to 24 in 2013. Until 2006–2007, those rates were inferior to the average rate observed in East Asian and Pacific countries. Between 1960 and 2012, life expectancy increased from 59 years old to 75.6 years old. This life expectancy has always been higher than the average in Asian and Pacific countries (except between 1970 and 1975, during the war).

Resolution No 115 VCP (2012), based on a five-year preparation process, developed the bases of a welfare state through four types of insurance pillars:

- (i) compulsory insurance for employees;
- (ii) voluntary insurance for informal sector workers, including agriculture. Up to now, 200 000 persons have been integrated into the system and there is a potential to accommodate 3 million workers. The government subsidizes

specific groups (e.g. 70 % for agriculture, 100 % for ethnic minorities, or children less than 6 years old);

- (iii) unemployment insurance for the formal sector, which level remains low (8 to 13 US\$ per month);
- (iv) universal health insurance (since 2014): up to now, 70 % of population has been covered, and 25 million people are subsidised.

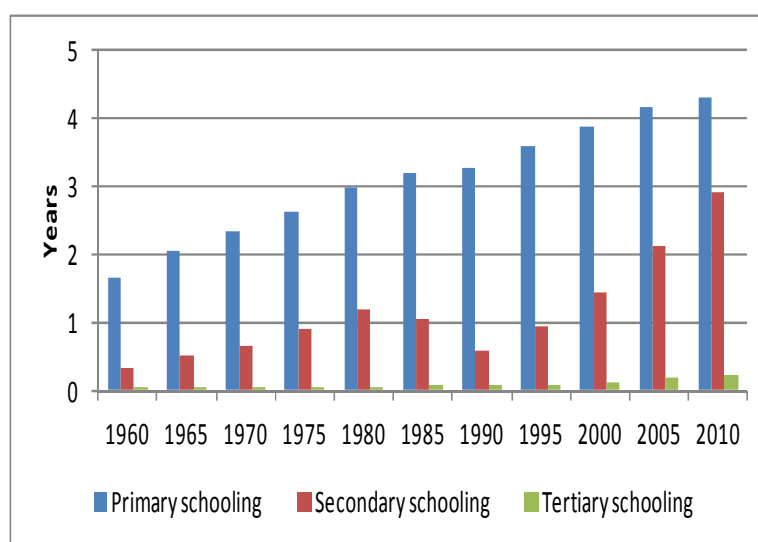
Regarding education, the school enrolment rate remains high for primary school. The increase in school enrolment in tertiary institutions has been quite impressive during the last 15 years: it doubled between 2000 and 2012. But unfortunately, the average years spent in tertiary schooling remains very low.

**Table 6 – Evolution of school enrolment by education level (% gross)**

	1976	1980	1986	1990	1996	2000	2006	2012
<b>School enrolment, primary (% gross)</b>	109	109	104	103	112	107	99	105
<b>School enrolment, secondary (% gross)</b>	35	43		34				
<b>School enrolment, tertiary (% gross)</b>	2	2	2	3	4	9	16	25

Source: WDI

**Figure 17 – Average years of school for people aged 25 +**



Source: Barro-Lee 2014

Jointly with other ministries and corporations, MOLISA started to implement, from 2010, an ambitious vocational education program for rural areas. It mobilizes a network of vocational education organizations (universities, vocational education, enterprises or education mass organizations). The objective for 2010–2020 is to train 1 million people each year, half of them being subsidized by the State, to expand the vocational training centre networks, and to build capacity for local government officials. The subsidy goes to the workers. Contribution by communes and enterprises to operational costs is encouraged. The thematic targets deal with increasing labour productivity: for example, for farmers, high productive rice or tobacco production; and decentralization issues (for civil servants involved with the newly integrated local level policies). Communes have a key role in identifying themes and possible candidates for vocational training. The global objective is to help rural people move from agriculture to other sectors, and shift to industry or services sectors. Public-private partnership with industrial companies is encouraged, in order to prepare manpower for industrial activities.

## Section 5. Main lessons from the Vietnamese experience

### About development policies

The evolution of Vietnam over the last decades is unique. Following a thirty-year conflict, starting with the independence war in 1945 and ending in 1975, the country now has a booming economy with a significant record in terms of growth, competitiveness and human development.

The pathway of structural change of Vietnam can be divided into two periods: before and after the *Doi Moi* or renovation (1986). The first period was marked profoundly by the conflict between the South and the North of the divided country, which devoured all the development efforts. Priority was centred on agriculture, which was the overwhelmingly dominant activity. After the creation of the Socialist Republic of Vietnam in 1975, the government organized state control over the entire country and the economy, and engaged in collectivization in the South. Self-food supply was an objective in the context of the Cold War and careful attention was given to domestic migrations. Urbanization was low and controlled.

The disappointing economic results in the agricultural sector, leading to severe food crises at the end of the 1970s, and the difficulty in developing economic diversification, prompted the government to engage in a radical policy shift and to launch the renovation of the economy with a move towards a market-oriented economy. Market liberalization, land redistribution to farmers, and incentives through contracts facilitated agricultural growth. An export-led strategy was adopted, in agricultural commodities and also in manufacturing, with the country taking advantage of its position in Southeast Asia, and also from a booming labour force, reaped from the country's demographic dividend (as in other countries in the region). Government's budget was used to promote industrialization, getting support from transfers from the growing agricultural sector. The process was speeded up by foreign direct investments, facilitated by the existing Vietnamese diaspora, and also by the policy option to move rapidly on specific segments of global value chains, instead of engaging in a longer and costly "complete" industrialization process (as in South Korea in the 1960s and 1970s). Urbanization accelerated, as did rising inequalities, at the overall level and between rural areas and cities, in spite of improving social development. This new context led the government to start thinking about engaging in new integrated policies, discussing new strategies and exploring the implementation of global welfare measures.

### About rural development

The emergence of rural development occurred in that specific context. For long, rural development policies did not exist, as such. They were assimilated into agricultural policies, the main purpose of which was to increase production. After the failure of collectivization, priority was given to the development of family farms through the land reform process and the liberalization of marketing but, although farmers' incomes improved, the gap to workers in other economic sectors and to urban dwellers progressively increased.

A specific rural development strategy, going beyond the classic agricultural objectives, emerged in 2007 and translated into the *New Rural Development Program* (NTP-NRD). Inspired from the review of other national experiences (Korea and Japan), the program put emphasis on three elements: a willingness to mobilize rural communities, and thus

to support local initiatives through public investments; the objective of limiting urban-rural disparities through multidimensional policies (economic and social); and strong commitment from the government at the different administrative levels.

The orientation of the new strategy promotes a cross-sectorial vision of rural development. If agriculture continues to play an important role, because of its historical importance in rural areas and because of the leadership of the Ministry of Agriculture in the process, rural development is conceived together with urban development and other economic activities. As such, the new program challenges the traditional sector-based interventions, and is somewhat facilitated by its implementation at the provincial level. This new orientation, however, raises several issues: funding difficulties at the local level, which limit the investment capacity; organizational conservatism related to the centralizing tradition of the state apparatus, which restrains the pace of change; and the need for effective rural organizations.

### **Main cross-cutting themes**

Vietnam has developed an original model, combining a single political party system with a market-led economy, which has resulted in good economic performance and social progress. The definition of development strategies with objectives and priorities was facilitated by the political control of the state, its institutional robustness attributable to the long Vietnamese history and centuries of self-government (colonization being a parenthesis), and existing administrative capacity. These characteristics, which did not prevent governance issues, led to a high degree of autonomy in policy design and a quite unique ability to learn from failures. They helped the country to engage in a “self-managed structural adjustment” to address the macroeconomic difficulties following collectivization and to implement drastic reforms when needed.

Over time, the government showed its consistency through its capacity to commit to the realization of its own agenda and, as such, to reduce economic and institutional risks for the economic agents. It was also able to innovate pragmatically when it initiated the “socialist market economy”. Experiments were launched in different sectors, such as trade and agriculture, with pilots being developed in selected provinces and being extended nation-wide when successful, or left out when inconclusive. This ability to take advantage of experiments resulted in increased capacity for adaptation, translated into new objectives and fine-tuned programs. It is illustrated by the shift towards economic liberalization, and more recently towards a tentatively more balanced regional development where local governments are progressively supported and given more autonomy.

Providing the right incentives and the necessary public investments in public goods – infrastructure and education – were a key for success and for a progressive, structural transformation. The country was able to adapt to the challenges of globalization, although the cost is rising in social and spatial inequalities. The development of social protection is a possible answer, but it raises a question of sustainability. Further economic diversification will be necessary and it requires the implementation of multisectorial approaches and more local development, which implies the implementation of an effective decentralization. To deal with the growing costs of urbanization and the challenges of climate change, the long-standing tradition of top-down approaches will have to connect with necessary bottom-up processes.

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<http://unctad.org/en/Pages/Statistics.aspx>

UNDP Human development index

<https://data.undp.org/dataset>

World Development Indicators (WDI)

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World Population Prospect (WPP)

<http://esa.un.org/wpp/>

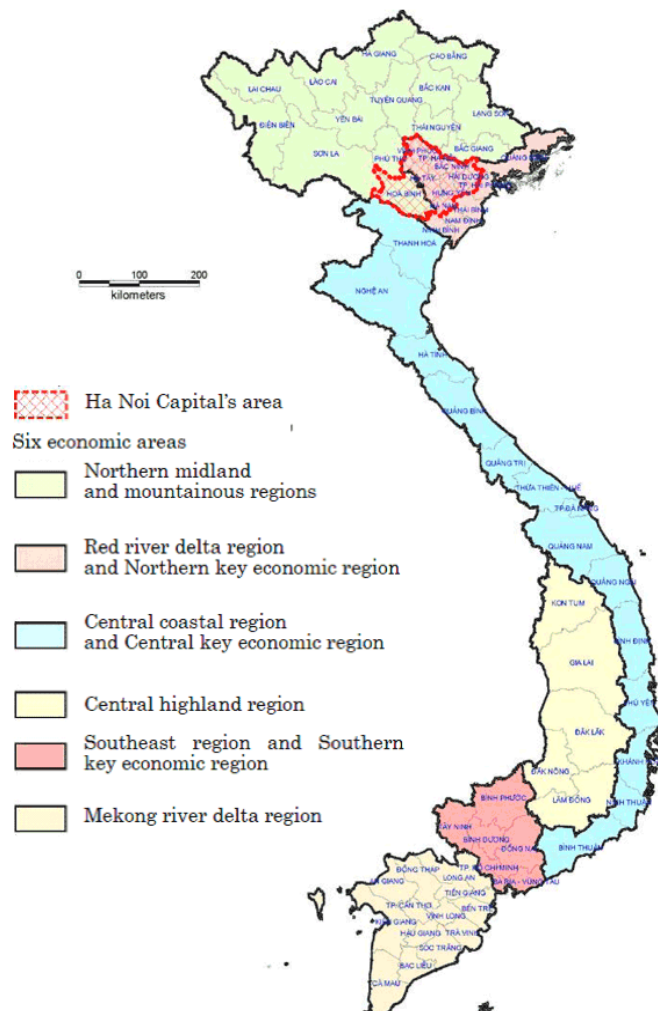
World Urbanization Prospect (WUP)

<http://esa.un.org/unpd/wup/>

## Annexes

### Maps

#### Administrative divisions:



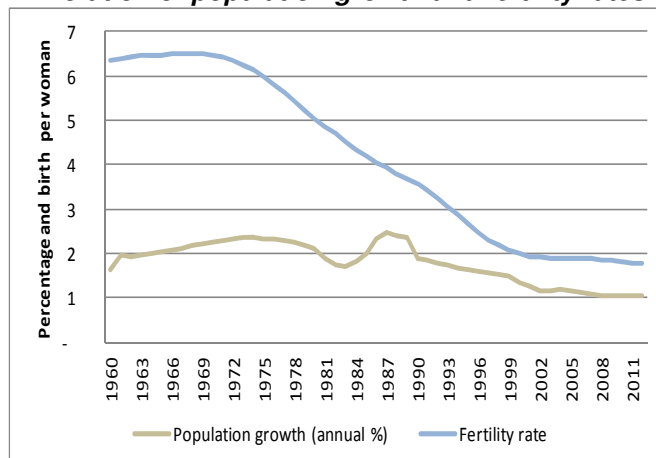
Source: Ministry of Land, Infrastructure, Transport and Tourism (MLIT) JAPAN  
([http://www.mlit.go.jp/kokudokeikaku/international/spw/general/vietnam/index\\_e.html](http://www.mlit.go.jp/kokudokeikaku/international/spw/general/vietnam/index_e.html))



## Additional statistics

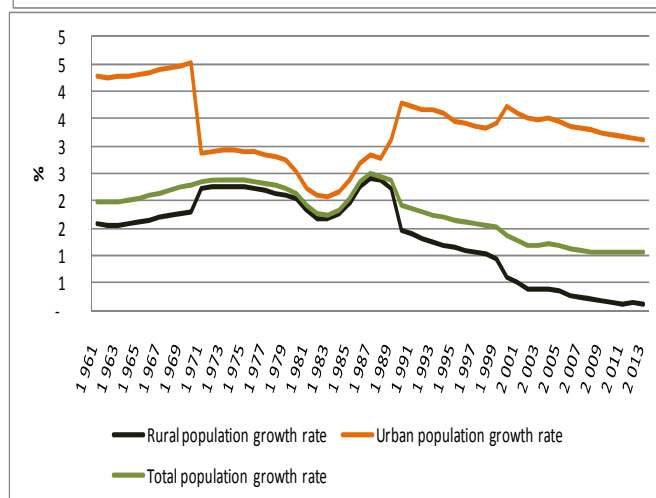
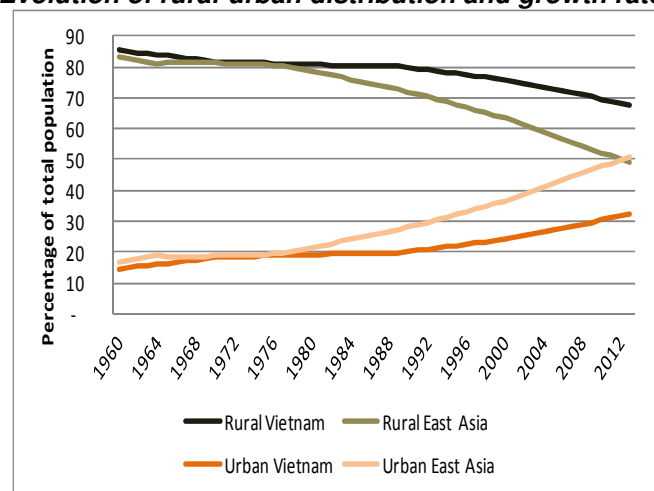
### Demography

**Evolution of population growth and fertility rates**



Source WDI

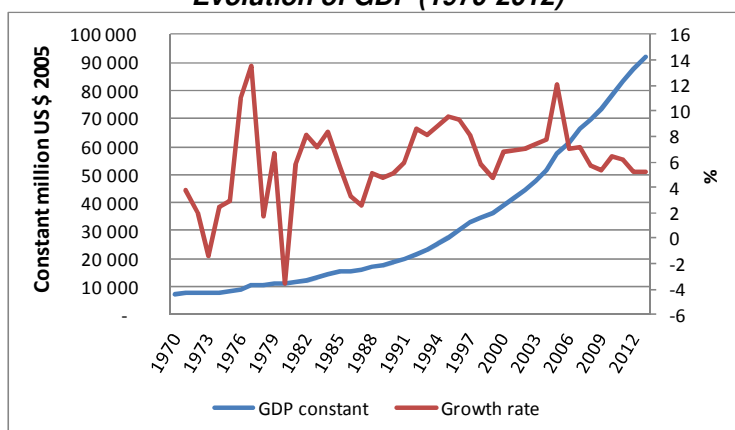
**Evolution of rural-urban distribution and growth rates**



Source WDI

## Economic indicators

**Evolution of GDP (1970-2012)**



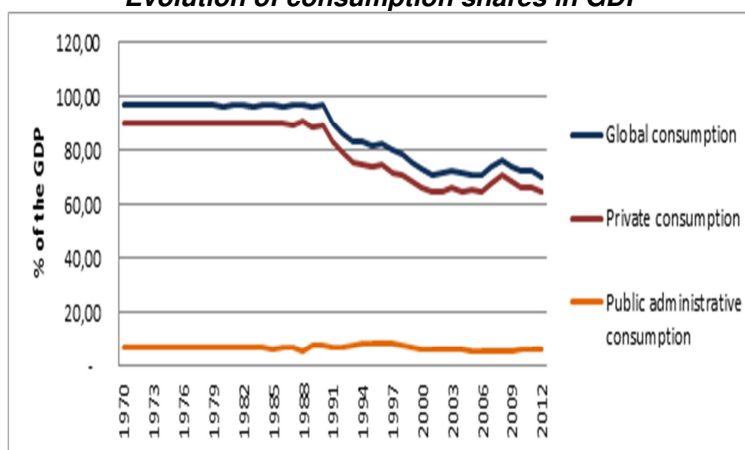
Source UNCTAD

**GDP shares per sector**

	1985	1990	1995	2000	2005	2010	2013
Services,	32	39	44	43	43	43	43
Industry	27	23	29	34	38	38	38
Manufacturing	21	12	15	17	19	18	17
Others	7	10	14	17	19	20	21
Agriculture	40	39	27	23	19	19	18

Source WDI

**Evolution of consumption shares in GDP**



Source UNCTAD

## Definition of agricultural land

**Agricultural land** refers to the share of land area that is **arable**, under **permanent crops**, and **under permanent pastures**.

- **Arable land** includes land defined by the FAO as land under temporary crops (double-cropped areas are counted once), temporary meadows for mowing or for pasture, land under market or kitchen gardens, and land temporarily fallow. *Land abandoned* as a result of shifting cultivation is *excluded*.
- **Land under permanent crops** is land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest, such as cocoa, coffee, and rubber. This category includes land under flowering shrubs, fruit trees, nut trees, and vines, but *excludes* land under trees grown for *wood* or *timber*.
- **Permanent pasture** is land used for five or more years for forage, including natural and cultivated crops.

(Source: FAO)

## Documents de travail ART-Dev

- 2016-6 Losch, B. ; Giordano, T. ; Marzin, J. et Michaud, A. 2016. Rural Development Policy in Perspective. Lessons from Country Case Studies & Implications for Rural Development Strategies in Developing Countries.
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- 2014-14 Le Coq JF., Pesche D., Legrand T., Saenz F., Politique publique et changement climatique: une lecture par les coalitions de cause du Programme de Paiement pour Services environnementaux au Costa Rica.



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